



Department of Health Care Services
MEMORANDUM

Date: December 20, 2007

To: Karen Johnson
Chief Deputy Director
Policy and Program Support
Department of Health Care Services
1501 Capitol Avenue, MS 0003

From: Thomas J Rakela, C.F.E., Chief
Internal Audits
1500 Capitol Avenue, MS 2001
(916) 445-0759

Subject: Review of the Department's Administrative and Accounting Controls

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code, § 13400 through 13407, I am attaching the final report for the audit of the Department of Health Care Services' Review of Administrative and Accounting Controls. Please sign the letter to the Agency Secretary, Kimberly Belshé, and the individual letters to the other required organizations.

If you have any questions, please call me at (916) 650-0272

Attachment



State of California—Health and Human Services Agency
Department of Health Care Services



ARNOLD SCHWARZENEGGER
Governor

DEC 21 2007

The Honorable Arnold Schwarzenegger
Governor of California
State Capitol, First Floor
Sacramento, CA 95814

Dear Governor Schwarzenegger:

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code, § 13400 through 13407, I am submitting the enclosed report describing the review of our systems of internal control for the biennial period ended December 2007.

In addition to the above report, I am enclosing a summary of internal control reviews that were conducted during the biennial period.

As statutorily required, the Department of Health Care Services is in compliance with Government Code, § 12439

Sincerely,

Karen Johnson
Chief Deputy Director
Policy and Program Support

Enclosure



SANDRA SHEWRY
Director

State of California—Health and Human Services Agency
Department of Health Care Services



ARNOLD SCHWARZENEGGER
Governor

DEC 21 2007

The Honorable Nell Soto, Chairperson
Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, CA 95814

Dear Assemblymember Soto:

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code, § 13400 through 13407, I am submitting the enclosed report describing the review of our systems of internal control for the biennial period ended December 2007.

In addition to the above report, I am enclosing a summary of internal control reviews that were conducted during the biennial period.

As statutorily required, the Department of Health Care Services is in compliance with Government Code, § 12439.

Sincerely,

Karen Johnson
Chief Deputy Director
Policy and Program Support

Enclosure



State of California—Health and Human Services Agency
Department of Health Care Services



ARNOLD SCHWARZENEGGER
Governor

DEC 21 2007

Elaine M. Howle
State Auditor
Bureau of State Audits
555 Capitol Mall, Room 300
Sacramento, CA 95814

Dear Ms. Howle:

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code, § 13400 through 13407, I am submitting the enclosed report describing the review of our systems of internal control for the biennial period ended December 2007.

In addition to the above report, I am enclosing a summary of internal control reviews that were conducted during the biennial period

As statutorily required, the Department of Health Care Services is in compliance with Government Code, § 12439.

Sincerely,

Karen Johnson
Chief Deputy Director
Policy and Program Support

Enclosure



State of California—Health and Human Services Agency
Department of Health Care Services



ARNOLD SCHWARZENEGGER
Governor

DEC 21 2007

Susan Hildreth
State Librarian
California State Library
Government Publications Section
Library and Courts Building
P.O. Box 942837
Sacramento, CA 94237-0001

Dear Ms. Hildreth:

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code, § 13400 through 13407, I am submitting the enclosed report describing the review of our systems of internal control for the biennial period ended December 2007.

In addition to the above report, I am enclosing a summary of internal control reviews that were conducted during the biennial period.

As statutorily required, the Department of Health Care Services is in compliance with Government Code, § 12439

Sincerely,

Karen Johnson
Chief Deputy Director
Policy and Program Support

Enclosure



SANDRA SHEWRY
Director

State of California—Health and Human Services Agency
Department of Health Care Services



ARNOLD SCHWARZENEGGER
Governor

DEC 11 2007

Kimberly Belshé
Secretary
Health and Human Services Agency
1600 Ninth Street, Room 460
Sacramento, CA 95814

Dear Ms. Belshé:

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code, § 13400 through 13407, I am submitting the enclosed report describing the review of our systems of internal control for the biennial period ended December 2007.

In addition to the above report, I am enclosing a summary of internal control reviews that were conducted during the biennial period.

As statutorily required, the Department of Health Care Services is in compliance with Government Code, § 12439.

Sincerely,

Karen Johnson
Chief Deputy Director
Policy and Program Support

Enclosure



SANDRA SHEWRY
Director

State of California—Health and Human Services Agency
Department of Health Care Services



ARNOLD SCHWARZENEGGER
Governor

DEC 21 2007

Michael C. Genest, Director
Department of Finance
State Capitol, Room 1145
Sacramento, CA 95814

Dear Mr. Genest:

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code, § 13400 through 13407, I am submitting the enclosed report describing the review of our systems of internal control for the biennial period ended December 2007.

In addition to the above report, I am enclosing a summary of internal control reviews that were conducted during the biennial period.

As statutorily required, the Department of Health Care Services is in compliance with Government Code, § 12439.

Sincerely,

Karen Johnson
Chief Deputy Director
Policy and Program Support

Enclosure

**DEPARTMENT OF HEALTH CARE SERVICES
INTERNAL AUDITS**

**REVIEW OF THE DEPARTMENT'S
ADMINISTRATIVE AND ACCOUNTING
CONTROLS**

DECEMBER 2007

**AUDITORS:
CHRISTOPHER SCOTT
ALICIA ENRIQUEZ-GUSTAFSON**

**THOMAS J. RAKELA, C.F.E.
CHIEF OF INTERNAL AUDITS**

ASSIGNMENT NO. 07515

TABLE OF CONTENTS

EXECUTIVE SUMMARY	Pages 1-3
AUDITOR'S OPINION	Pages 4-5
FINDINGS AND RECOMMENDATIONS	Pages 6-20
AUDITEE'S RESPONSE.....	Pages 21-33

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This report is being submitted pursuant to Government Code, § 13405, which requires that the head of each state agency submit a biennial report on the adequacy of the agency's internal control systems. Government Code, § 13402 makes state agency heads responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. Government Code, § 13403 lists the various required elements of proper internal control systems.

Our review covered the following transaction cycles:

- Accounts Receivable
- Fixed Assets and Purchasing
- Revolving Fund
- Human Resources and Payroll
- Information Technology Controls
- Cash Disbursements
- Cash Receipts
- Contracts
- Budgets
- Financial Reporting

Senate Bill (SB) 162 established the California Department of Public Health (CDPH) within the existing Health and Human Services Agency and statutorily transferred certain responsibilities from the California Department of Health Services (CDHS) to the new CDPH, effective July 1, 2007. At the same time, CDHS was renamed the Department of Health Care Services (DHCS). The findings and recommendations in this report pertain to the DHCS.

This report contains a total of 14 findings and 20 recommendations, some of which are repeat findings from our prior biennial internal control review (December 2005). The detailed findings and proposed recommendations are listed in the Findings and Recommendations section of this report. Repeat findings are designated in the report by an (R) located directly after the description of the finding.

As in prior years, this report's opinion has been qualified because our review revealed significant internal control weaknesses that we consider pervasive in their effects on the accounting and administrative controls. First, controls over fixed assets are not adequate. Specifically, general ledger fixed asset totals are not adequately supported by detailed inventory records. Second, receivables are not cleared in a timely manner. Outstanding receivables in excess of 120 days total \$27,391,092. This is an increase of more than \$10 million since our last biennial internal control review. Outstanding receivables include amounts for both DHCS and CDPH. Both of these findings remain uncorrected from our prior biennial internal control review.

The remaining findings, although not significant enough to qualify this report's opinion, were noted during the course of our review. The findings are discussed in the following paragraphs, sorted by transaction cycle.

The Fixed Assets and Purchasing section has two additional findings. In addition to the lack of detailed reliable inventory records, controls over fixed assets are insufficient to ensure that assets can be located when needed. Approximately 59 percent of assets selected for review could not be located by program staff. Additionally, the Asset Management Unit has not created or maintained desk procedure manuals. A lack of established, written procedures may result in inefficient performance, less reliable recordkeeping, and operational dysfunction.

The Revolving Fund section has two findings. As in prior reviews, outstanding salary and travel advances are not being adequately monitored and recovered. Also, written procedures for the collection of revolving fund advances need to be developed and consistently followed. Resolution of this finding will require a coordinated effort between the DHCS Accounting and Human Resources offices.

The Human Resources and Payroll section has one finding. Specifically, the Attendance Summary form (DTS 634) is not filled out by all DHCS personnel as required in the Attendance Coordinator Manual. This is the result of a lack of established procedures for identifying and following-up on missing 634's.

The Information Technology Controls section has one finding. DHCS Accounting does not remove access to the California Statewide Accounting and Reporting System (CALSTARS) and the California Automated Travel Expense Reimbursement System (CalATERS) in a timely manner upon termination or transfer of an employee. Failure to terminate access to these systems increases the risk of inappropriate access and entries into these systems.

The Disbursements section has two findings. First, we noted a lack of controls over blank checks. Lax controls over physical access and failure to conduct a periodic physical inventory of blank check stock increases the risk of check theft and/or fraudulent check writing. Second, we noted that the Third Party Liability and Recovery Division is not processing vendor invoices in a timely manner nor is it reconciling with CALSTARS to ensure only appropriate payments are made. As a result, there is an increased risk of duplicate payments and a potential liability for interest payments.

The Cash Receipts section has one finding. As noted in prior reviews, the Uncleared Collections general ledger account is not reviewed and cleared in a timely manner. As a result, outstanding accounts receivable are not cleared timely. Failure to identify cash receipts in a timely manner increases the outstanding receivables, leading to potential misstatements on the financial statements and cash flow issues.

The Contracts section has three findings. First, contracts, for a variety of reasons, are not being processed in a timely manner. As a result, we found that contractors are

beginning work prior to execution of the contract. Contractors commencing work before an agreement is fully executed run the risk of having the agreement disapproved or payments disallowed or delayed. This could ultimately cause problems for the various DHCS programs in achieving their delivery of services. Second, one contract did not contain a prevailing wage provisions and the contractor provided services prior to the contract being approved. Finally, the Office of Health Insurance Portability and Accountability Act (HIPAA) Compliance did not provide requirements for HIPAA compliance to California Multiple Award Schedule (CMAS) vendors and did not determine if there was a conflict of interest as required in the CMAS standard contract language.

No reportable findings were noted during our review of the Budgets and Financial Reporting processes.

Although the volume and severity of the findings may seem large, we are optimistic that we can successfully work together with the related unit or division to implement our recommendations. If cooperation exists and recommendations contained in this report are implemented, we believe internal controls could be strengthened significantly.

AUDITOR'S OPINION

AUDITOR'S OPINION

Internal Audits has made a study and evaluation of the accounting and administrative controls of the Department of Health Care Services (DHCS or Department) in effect as of November 26, 2007. Our study and evaluation was conducted in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and included the audit tests considered necessary in determining that accounting and administrative controls are in place and operative.

The Department's management is responsible for establishing and maintaining adequate internal controls. This responsibility, in accordance with Government Code, § 13402 et seq., includes documenting internal controls, communicating requirements to employees, and assuring that the internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative controls are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

Our study and evaluation revealed significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. We noted that the Department's controls over fixed assets are not adequate. Specifically, general ledger fixed asset totals are not adequately supported by detailed inventory records. We also noted that receivables are not cleared in a timely manner. Outstanding receivables in excess of 120 days total \$27,391,092. This is an increase of more than \$10 million since our last biennial internal control review. Outstanding receivables include amounts for both DHCS and CDPH. Both of these findings remain uncorrected from our prior biennial review.

These conditions, along with other weaknesses, are described in the Findings and Recommendations section of this report.

In our opinion, except for the effect of the weaknesses described above, the Department's accounting and administrative controls in effect as of November 26, 2007, taken as a whole, was sufficient to meet the objectives stated above.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls may change over time. Specific limitations that may hinder the

effectiveness of an otherwise adequate system of controls include, but are not limited to: resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all of these limitations would not be cost effective; moreover, an audit may not always detect these limitations.

A handwritten signature in black ink, reading "Thomas J. Rakela". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Thomas J. Rakela, C.F.E., Chief
Internal Audits

FINDINGS AND RECOMMENDATIONS

FINDINGS AND RECOMMENDATIONS

ACCOUNTS RECEIVABLE

Accounts Receivable from the former California Department of Health Services (DHS), which included receivables from both the Public Health program and Health Care program, remain with the new Department of Health Care Services (DHCS or Department). Per the Chief of the Accounting Section, any recoveries that are made subsequent to the DHS split that pertain to the California Department of Public Health (CDPH) will be transferred from DHCS to CDPH.

Finding 1 Lack of clearing Accounts Receivable. (R)

Condition As of March 31, 2007, the California State Accounting and Reporting System (CALSTARS) Accounts Receivable Aging (D03) report showed \$27,391,092 in accounts receivable outstanding over 120 days. This is an increase of approximately \$10 million since our previous State Administrative Manual (SAM) report. The outstanding amounts consist of both DHCS and CDPH receivables, including abatements, due from other governments, revenue, and miscellaneous amounts. Accounting has not separated the amounts between the two Departments. Findings included inconsistent collection procedures, disagreement between Accounting and the program on who is responsible for collection, and that many outstanding balances had records that were either in archives or could not be found. Internal Audits expanded our review of some outstanding balances and determined the following:

Initially, Internal Audits tested approximately \$5.5 million in Accounts Receivable to source documents, of which \$5.2 million was Foster Care, \$214,413 was Cal Nutrition Network, and the balance of \$64,292 was for Licensing and Certification. When Accounting was asked for documentation for the \$5.2 million, their response was to contact Children's Care Services (CCS), which administers the Foster Care program. Accounting stated that they have nothing to do with the collections for the CCS Accounts Receivable and have no documentation for it. Internal Audits contacted CCS and was told that Accounting does the billing and collections for Accounts Receivable, not the program. On Cal Nutrition Network's outstanding Accounts Receivable, Accounting's reply was that the supervisor for this program is new and unable to locate any of the documentation regarding the Accounts Receivable. Internal Audits did not receive any reply regarding Licensing and Certification's outstanding Accounts Receivable from Accounting.

The audit sample for the Federal Trust Fund Accounts Receivable was \$1,057,600. This total amount was for the Women, Infant and Children (WIC) program. Accounting requested WIC to research four of the outstanding Accounts Receivable amounts. WIC responded that these outstanding amounts were from old audit recoveries, some of which have been outstanding since the 1980's. WIC stated that they are working with the State Controller's Office (SCO) to clear up these balances.

Part of the overdue Accounts Receivable balance is Payroll's Aged Accounts Receivable. We tested 41 of these balances and found that many of the receivables had evidence of an Employee Action Request indicating that some action had been taken to clear the outstanding amounts. A number of the audit samples had some type of collection letters; however, many had no collection letters. Occasionally, employees were granted an additional payroll advance before paying back the prior advance. In all of the audit samples, no documentation was available showing that outstanding amounts were being referred to SCO or the Franchise Tax Board for collections.

Internal Audits tested four Accounts Receivable Other balances. Most of these receivables had documentation and correspondence up to July 23, 2004. However, there has been no action on these amounts since that time. In one case, we found that a contractor requested information on what made up the Accounts Receivable from Information Technology Services Division (ITSD) but ITSD never responded to the request.

Another \$1.6 million audit sample included both outstanding receivables from DHCS and CDPH. Internal Audits was unable to test any of these Accounts Receivable since they had all been relocated to archives and could not be retrieved.

The Accounts Receivable Procedures state that the folders will be archived when closed. Accounting staff stated that when Accounts Receivable becomes "old" the folder is moved to archives to help with the file space at their desk. Accounting staff was unable to define an "old" Accounts Receivable case.

Currently, Accounts Receivable functions are decentralized, meaning that the same functions are performed by several teams within Accounting. The teams are organized to support individual programs. This has caused inconsistencies between the teams in the procedures for collecting outstanding Accounts Receivable. Accounting plans to centralize these functions for consistency and efficiency in the future.

Since some of the Accounts Receivable are over three years old they may not be collectable, causing the Departments' financial statements to be overstated. The Department may have costs associated with supplying a service without ever being reimbursed. Additional effects of not collecting outstanding Accounts Receivable include poor cash flow and potential budget deficiencies.

Criteria SAM, § 8776.6 states that each department will develop collection procedures that will assure prompt follow-up on Accounts Receivable. The collection procedures require the Department to send a sequence of three collection letters, with the third letter referencing prior letters, and stating what further actions may be taken. When collection letters are unsuccessful an analysis should be prepared, including a cost/benefit analysis of the collection actions taken.

- Recommendations**
- A** Begin the process of clearing uncollectable receivables.
 - B** Accounting should develop and implement vigorous collection procedures which incorporate SAM, § 8776.6, including the supervisor's review and analysis when the 90-day letter is unsuccessful.
 - C** When preparing billings for programs, Accounting should establish a Memorandum of Understanding which sets forth responsibilities for the collection of receivables.
 - D** Consider using an outside collection agency.

FIXED ASSETS AND PURCHASING

Finding 2 General Ledger Fixed Assets are not supported by detailed inventory amounts as recorded in the Health Inventory System. (R)

Condition The Asset Management Unit (AMU) within the Contract and Business Service Section (CBSS) maintains the fixed asset inventory for DHCS utilizing the Health Inventory System (HIS) report. The HIS report is perpetually updated through submission of fixed asset transactions from various programs and a fixed asset physical inventory count that is required every three years. The balance on the HIS report, dated March 8, 2007, shows approximately \$43.8 million in inventory for both Departments. However, a fixed asset physical inventory count has not been successfully completed by AMU since Fiscal Year (FY) 95/96. The result is an unreliable and misstated General Ledger Fixed Asset account.

The AMU initiated a physical inventory count at the end of February 2007 by sending departmental section- or unit-specific HIS reports to the appropriate location for comparison of physical fixed assets. This procedure has been performed in the past with limited success. The ending submission date was March 23, 2007. As of this date, very few of the HIS responses were returned to AMU. Programs returned the HIS reports with assets marked as "missing" or as being transferred to a different location. However, the AMU stated that no adjustments would be made to the HIS reports because these items may be at a different location and may be reported on another section's inventory report.

Criteria SAM, § 7977 requires the reporting of changes in fixed assets resulting from acquisitions and disposition during the fiscal year. Additionally, SAM, § 8652 requires the Department to make a physical inventory count of all property and reconcile the count with accounting records at least once every three years.

Recommendation E AMU should perform a fixed asset physical inventory count. The physical inventory count should be utilized to update the general ledger accounts, HIS report, and the physical inventory balances. In the future, AMU should develop a plan to ensure that a physical inventory count is performed within the three-year time frame as required by SAM.

Finding 3 Fixed Assets can not be located in all instances. (R)

Condition A sample of the most recent updated HIS Equipment Master File was taken. Assets were chosen from both DHCS and CDPH. A list was given to an Accounting Technician with a request to locate the assets. Of the 17 items sampled, only seven were found (41 percent). AMU stated that most of the other assets had been traded in for replacements. However, the programs never completed the proper paper work and submitted it to AMU or the warehouse for proper accounting and updates. We did not identify misappropriated assets.

AMU is in the process of performing a physical inventory. They have sent out information to each program asking that a form be filled out listing all the fixed assets. This has been done in the past with minimal results. AMU had a due date of March 23, 2007, requiring all the programs to submit their asset forms. A majority of the programs never submitted the required information; however, some have called asking for more time.

Criteria SAM, § 7977 requires the reporting of changes in fixed assets resulting from acquisitions and disposition during the fiscal year. Additionally,

SAM, § 8652 requires the Department to make a physical inventory count of all property and reconcile the count with accounting records at least once every three years.

Recommendation F Programs need to inform AMU and complete the required paper work when a fixed asset is either traded in or disposed of. This will account for the fixed asset transaction that will be used to update the Fixed Asset Ledger.

Finding 4 The Asset Management Unit has not created or maintained desk procedure manuals.

Condition Interviews conducted with AMU personnel charged with implementing, tracking, and receiving purchase orders stated that procedure manuals are not complete and are out of date. Due to time constraints, heavy workload, and the time it takes to figure out what the job entails, employees have not updated existing procedure manuals and have not begun the process of creating procedure manuals for desks.

As a result, the lack of documentation of current procedures may result in lost time and information may also be lost when the employee leaves the position. New employees will continue to expend a large amount of time trying to determine what procedures have been used in the past. Employees may not recall all pertinent details and reports required. Poor internal controls weaken the reliability of the records kept and may lead to inaccurate accounting data and operational dysfunction.

Criteria SAM, § 20050 states that there are several symptoms of control deficiency. Experience has indicated that the existence of one or more of the following danger signals will usually be indicative of a poorly maintained or vulnerable control system. These symptoms may apply to the organization as a whole or to individual units or activities. It also states that entity heads and managers should identify and make the necessary corrections when warned by any of the seven danger signals, such as:

1. Policy and procedural or operational manuals are either not currently maintained or are nonexistent.

Recommendation G Direct AMU personnel to update, maintain, and create needed desk procedure manuals.

REVOLVING FUND

Appropriations to the fund included advances for salary, travel, and other expenses. Tests were performed on existing aged receivables for the Department prior to the split. However, the findings are pertinent to both Departments.

Finding 5 Outstanding travel and salary advances are not adequately monitored and recovered. (R)

Condition Salary and travel advances are not being monitored to ensure that the advances are offset with subsequent warrants or travel claims. Several advances for individuals identified in the prior SAM review still remain outstanding and were not resolved. The current Accounting Administrator II found the files for these individuals. The employees were on Non-Industrial and Industrial Leave and one employee was deceased. The Administrator II contacted the Department of Finance to get information on how to resolve and write off the uncollectible receivables for these employees. She is in the process of going through all the outstanding Accounts Receivable but was not able to find a lot of the files selected for the audit sample due to staff attrition and the splitting of the Department.

Accounting has not had an opportunity to trace the outstanding advances that were recorded in the Uncleared Account for the Revolving Fund. For the present review period, as of March 31, 2007, the outstanding balance for the Accounts Receivable of salary advances was \$270,661; for travel advances it was \$224,887. This is a significant increase over the prior SAM review, which identified \$83,349 in outstanding salary advances. Travel advances were not a finding in the prior review.

Criteria SAM, § 8116.1 states that a travel advance may be issued to an employee on official State business. The travel advance will be issued within 30 calendar days of when the anticipated expenses are to be paid or incurred. The 30 calendar days will be based on the issuance date of the revolving fund check for the travel advance.

SAM, § 8116.2 states in part that (1) a properly prepared Travel Expense Claim (TEC) to substantiate the travel expenses must be submitted as soon as possible after the trip(s) or at least once a month; (2) if the travel advance exceeds the substantiated expenses, the employee must submit a check or money order with the TEC to return the excess travel advance amount; (3) if the substantiated expenses exceed the travel advance, the employee will be paid the difference with a revolving fund check; and (4) the periodic statement will specify that the employee must submit TEC's and return any excess travel

advance amounts within 30 calendar days of the periodic statement date

SAM, § 8118 and 8595 states that normally agencies will make office revolving fund payments to employees for salary earned only when (1) there have been errors or delays in submitting or processing documents making it impossible for the SCO to prepare and deliver proper salary warrants within a reasonable time; or (2) separating employees are in immediate need of their final salary payments. However, agencies may, at their discretion, make payments of salaries earned where this is necessary to alleviate serious, unforeseeable hardship. Agencies will prepare written criteria for advances including the procedures that must be followed before advances are given. The specific reason for the advance must be written on the request. If the SCO's warrant is not received by the agency within 30 calendar days following the issuance of the revolving fund advance, the agency must report the amount of the advance, compute Federal withholding tax on the advance, and remit the withheld taxes to the SCO.

Recommendation H Outstanding salary and travel advances should be monitored and recovered according to the requirements. Human Resources (HR) should be notified monthly on the travel and salary advance collection effort.

Finding 6 Written procedures for the collection processes of outstanding Accounts Receivable are not being used or are nonexistent.

Condition Procedures for following up on the outstanding revolving fund advances are inconsistent throughout Accounting. A sample of 12 outstanding travel advances and 20 salary advances in excess of 120 days were chosen from the Aged Revolving Fund Advances report for review from the four accounting sections: Public Health, Medical Care Services, Department Support Services, and Central Accounting Services.

Several of the travel advances had been reimbursed but had not been posted to the California Automated Travel Expense Reimbursement System (CalATERS) by the accounting staff. The majority of the aged accounts had not filed TEC forms or been notified that reimbursement was necessary. Additionally, there were two employees that had received multiple advances that still had outstanding amounts due to the Department.

For salary advances, the audit sample revealed a lack of documentation and incorrect posting of accurate and complete transactions. In addition, some employees had not received any notification nor had actions been taken to resolve the outstanding salary advances. Four of

the outstanding salary advances had been noted in prior reviews and were still outstanding due to the employees being on disability, retired, working in another state department, or deceased.

Accounting is currently in the process of forming a collection team and creating written procedures to handle the collection processes after the year-end accounting processes are complete and the issues with the Departmental split are resolved. Procedures will include communication with HR on a monthly basis and the proper steps to resolve all outstanding Accounts Receivable for salaries and travel.

The revolving fund has not been reimbursed for the advances issued. This could lead to a smaller available balance in the revolving fund.

Criteria SAM, § 20050 and the Government Code (GC), § 13403 state that the elements of a satisfactory system of internal accounting and administrative controls shall include an established system of practices to be followed in performance of duties.

SAM, § 8116.3 states in part that departments must adhere to the provisions of GC, § 19838 and SAM, § 8776.7 regarding notification and collection of overpayments from employees.

Recommendation I Accounting should develop written procedures for the collection of outstanding travel and salary advances for use with CalATERS and staff.

HUMAN RESOURCES AND PAYROLL

Finding 7 The Attendance Summary form is not filled out by all Department personnel as required in the Attendance Coordinator Manual.

Condition The Attendance Summary form (DTS 634) is required to be filled out by all Department personnel. The 634's, are computer-generated and reflect attendance as entered by the Attendance Coordinator (AC).

Not all employees are submitting their 634's. In searching for 634's on an individual employee, it turned out that this person did not submit them as required in the Attendance Coordinator Manual. The Attendance Coordinator Manual states that the AC is to distribute the 634's to the employees and their supervisors for their review and signature. The original 634 is then returned to HR to serve as the official record of employee attendance. The 634's are due in the Payroll & Benefits Services Unit by the last working day of the pay

period. The AC is responsible for batching the 634's and forwarding them to the Payroll & Benefits Services Unit.

When asked if there was a way to determine if an employee did not submit their 634, a manager in HR stated that they used to manually verify that all employees submitted their 634. Someone would check a list of names and mark off who had submitted their form. This procedure has been eliminated due to the tedious work and time it takes. The manager stated that there is no other way to check.

Criteria The Attendance Coordinator Manual requires that all Department personnel complete and submit a 634 for approval and filing.

Recommendations J Each employee is required to submit a signed and approved 634, which will then be submitted to HR to serve as the official record of employee attendance.

K HR should establish procedures to follow up on missing 634's and/or develop alternate policies on maintaining 634's with the program.

INFORMATION TECHNOLOGY CONTROLS

Finding 8 Accounting does not timely remove access to CALSTARS and CalATERS upon termination or transfer of an employee.

Condition Accounting does not timely remove access to CALSTARS and CalATERS upon termination or transfer of an employee. Accounting stated that they had just updated the exit clearance form to include an area to be marked when employees need to be terminated from CALSTARS and CalATERS. However, this was a recent change. Accounting explained that although they are aware of the need to perform this task, the Department's employees do not always provide exit clearance forms in a timely manner. As a result, employees who have either transferred or terminated service may continue to have access to CALSTARS or CalATERS. That puts the Department at risk of inappropriate access and entries into the systems.

Criteria SAM, § 4841.2-4841.7 states that access to accounting and fiscal related system hardware and software should be adequately controlled.

Recommendation L Accounting should implement procedures to re-emphasize the need to ensure that access for employees are removed timely.

DISBURSEMENTS

Finding 9 Lack of controls over blank checks.

Condition As of June 11, 2007, Accounting had not done a physical inventory of blank checks. Accounting staff could not tell Internal Audits when the last physical inventory was conducted, nor could they provide any documentation to support that a physical inventory was ever conducted. The blank checks are kept in an unlocked cabinet located in the room with the check writer. This room is secured with limited keycard access. As of April 24, 2007, there were 23 keycards with access to the room with the check writer.

Internal Audits observed that the computer used to input the checks was left unattended on several occasions. Many other individuals' computers were also left unattended. The computers lock themselves after 15 minutes of inactivity. Even though this measure minimizes some risk of unauthorized access, there still exists a window of opportunity for someone to access a computer or files that they are not granted access to. This would make tracking and identifying any misuse of the computer more difficult.

Criteria SAM, § 20050 states that a system will be in place that limits the access to state assets to authorized personnel who require these assets in the performance of their assigned duties.

SAM, § 7920 states that each agency is responsible to complete any reconciliation necessary to safeguard the State's assets and ensure reliable financial data.

Recommendation **M** Accounting should establish and maintain a system that minimizes the risk of check theft and/or fraudulent check writing. Possible measures may include, but not necessarily be limited to:

- Regular and frequent physical inventory of blank checks.
- Securing checks in a locked storage container with the keys being kept by someone who does not have access to the storage area and/or check writing machine.
- Regular review of those granted access to the check writing machine. Limiting access to only those who need it as part of their daily duties.
- Remind staff to secure computers before leaving them unattended. This should be done even if staff is going to be gone for any amount of time, no matter how short.

Finding 10 Third Party Liability is not paying invoices timely nor is it reconciling to ensure appropriate payment.

Condition An interview with the Office Technician (OT) handling purchase invoices indicated that procedures are not in place to ensure timely payments. Our sample of the purchase invoices and the Third Party Liability (TPL) purchase order log substantiates delinquent payments. The OT was unaware of the requirement to process vendor invoices in a timely manner to ensure prompt payments. In addition, TPL did not reconcile payments to the CALSTARS to ensure appropriate payment. In general, the OT stated that the vendor would call if the payments were not received or if they were improper. As a result, TPL has put the Department at risk of paying interest payments as a result of delinquent payments and can not ensure that payments were not duplicated.

Criteria The State Contracting Manual (SCM), Chapter 7.20, Prompt Payment (Rev 10/05), A. Prompt Payment Act and interest penalty fee states that under GC § 927 et seq. state agencies which acquire property or services pursuant to a contract with a business must pay that business for each complete delivered item of property or services within 45 days from the date set forth in the contract or, if no payment date is specified in the contract, submit a correct claim schedule to the SCO within 30 calendar days after receipt of the undisputed invoice. The state agency must forward the invoice for payment to the SCO within 30 calendar days after receipt of the undisputed invoice. The SCO must pay the business within 15 days of receipt of the invoice from the state agency. The clock starts to run when an invoice is received by the department, not when it is received by the accounting office.

SAM, § 7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications. Reconciliations must be completed between the agency accounts and the accounts maintained by the SCO to disclose errors as they occur. Corrections to errors should be made before financial reports are prepared to partially ensure the accuracy of an agency's financial reports. Properly prepared reconciliations also help to audit the agency's accounting records. All reconciliations will be prepared monthly within 30 days of the preceding month, with the exception of property reconciliations.

Recommendation N TPL should implement procedures to ensure that payments are timely and proper.

CASH RECEIPTS

Finding 11 Uncleared Collections are not being reviewed and cleared timely. (R)

Condition The Uncleared Collections general ledger account, No. 3730, is reported on the Report of Outstanding Encumbrances, Obligations, and Payables (CALSTARSD01). The Department deposits unidentified receipts into the Uncleared Collections account. Subsequent to depositing, a determination is made on the proper remittance of the receipts to the various Departmental funds.

A report generated by Accounting, dated March 31, 2007, shows a total for Uncleared Collections of \$7,638,288. Fifty-eight percent of the total dollars of these Uncleared Collections are over 90 days uncleared from the receipt of the checks. Some Uncleared Collections amounts date as far back as October 31, 2002.

Random samples were requested from the report. Accounting was unable to find supporting documentation on some of the audit samples. Some audit samples had letters requesting information, but had no action since September 2006. Internal Audits found two amounts, totaling \$1,302,752, which have been uncleared since October 2006.

Accounting currently has a high personnel vacancy rate, which is causing the Uncleared Collections duties to become a low priority. Consequently, this could cause additional work on staff trying to recover the Accounts Receivable when the funds are already received but not cleared. This may cause a cash flow issue due to non-determination of funds. Also, the Department's Financial Statement Receivables may be overstated and Revenue understated.

Criteria SAM, § 10452 states that the Uncleared Collections account shows the amount of cash collections which must be reviewed to determine if they are to be accepted for a fund in the State Treasury or are to be refunded to payers.

Recommendation **O** Accounting must consistently review the Uncleared Collections timely. In doing this function, consideration should be given to the timely mailing of the first letter to the payer and also in mailing a letter requesting assistance from programs likely to receive the cleared funds.

CONTRACTS

Finding 12 The vast majority of 30 sampled contracts processed and approved were finalized after the start of the contract period. Some of the contracts did not contain an explanation for being late. Work was started prior to a contract approval. (R)

Condition The review found that more than 75 percent of the 30 contracts sampled were approved after the start of the contract period. Some contracts were approved as late as nine months into the contract period. Several contracts did not contain an explanation for being late. Furthermore, services were performed prior to the contract being approved.

According to the Contract Management Unit (CMU), they encourage Department staff to submit contract packages timely. Due to various reasons, DHCS staff continues to submit contracts late or incomplete causing delays in approving contracts. However, one major reason for the late contracts is chronic delays in passing the state's budget.

Contractors commencing work before an agreement is fully executed run the risk of having the agreement disapproved or payments disallowed or delayed. This, in turn, could cause problems for the programs in achieving their delivery of services. Regardless, CMU has no control over when services are performed. This issue is decided by the specific program.

Criteria CMU is required to process contracts in an efficient and timely manner. Health Administrative Manual, § 9-2110 states that contract approval can take between 2 and 14 weeks or longer from the date a final contract package is received by CMU for processing before the agreement is fully executed.

SCM, § 4.02 states that each state agency is responsible for making sure that its contracts comply with applicable legal requirements and is based on sound business practices. CMU should make every effort to process and approve contracts timely.

SCM, § 4.09 states that the basic state policy is that no contractor should start work until receiving a copy of the formally approved contract. Contractors that begin work before an agreement is fully executed face the risk of having the agreement disapproved or payments disallowed or seriously delayed.

Recommendation P CMU and programs should make every effort to comply with regulations to ensure that contracts are processed timely.

Finding 13 A contract for moving services did not contain a prevailing wage provision. Additionally, the contractor provided services prior to the contract being approved.

Condition A contract for moving services (contract number 05-46249) did not contain provisions that required the movers and supporting personnel to operate under current collective bargaining agreements or to maintain the prevailing wages, standards, and conditions of employment for its drivers and supporting personnel. It is particularly important that DHCS comply with these requirements in anticipation of the intended moving schedule for the next several years. Also, it is important to comply with the SCM and related regulations pertaining to wages to avoid any potential labor issues.

Additionally, contractors began work before the agreement was fully executed. The contract was approved August 16, 2006, for the term of July 3, 2006 through September 23, 2006. A billing invoice dated August 2, 2006, shows that services were provided on July 21, 2006, prior to the contract approval. Contractors that proceed with work before the contract is approved face the risk of having the agreement disapproved and payments disallowed or seriously delayed.

The CDHS employee familiar with the contract is no longer the contract manager. However, the current employee stated that every effort will be made to include prevailing wage provisions in contracts and schedule moving events after the contract is approved.

Criteria SCM, § 3.25 states that contracts exceeding \$2,500 with a carrier for commercial office moving services must conform to requirements contained in SAM, § 3810, which provides for such contracts to be with a carrier whose drivers and supporting personnel are operating under current collective bargaining agreements or who are maintaining the prevailing wages, standards, and conditions of employment for its driver and supporting personnel.

SCM, § 4.09 states that no contractor should start work until receiving a copy of the formally approved contract.

Recommendations **Q** Staff should include prevailing wage provisions in all moving contracts.

R Staff should not allow contractors to commence performing services until the contract is fully executed.

Finding 14 The Office of HIPAA Compliance did not provide requirements for HIPAA Compliance to CMAS vendors and did not determine if there was a conflict of interest as required in the CMAS standard contract language.

Condition A review of the California Multiple Award Schedule (CMAS) contracts revealed that in contracts with Trinity Government Systems and R Systems, the Office of HIPAA Compliance (OHC) did not follow the service requirements in the CMAS standard language. The standard language directs the Department to provide written identification of items that are confidential data and the State's procedural requirements for the protection of such data. The OHC stated that they were unaware of the requirements. As a result, the OHC has placed the Department at risk of a conflict of interest and a breach of HIPAA compliance.

Criteria CMAS, Information Technology Terms and Condition, General Provisions, No. 34 states that the identification of all such confidential data and information as well as the State's procedural requirements for protection for such data and information from unauthorized use and disclosure shall be provided by the State in writing to the contractor.

CMAS, No. 3-02-70-1257D, Supplement, Conflict of Interest states that agencies must evaluate the proposed purchase order to determine if there are any potential conflict of interest issues.

Recommendations **S** Develop procedures to systematically notify all active service CMAS contractors and other service contractors in writing of the State's requirement to protect Personal Confidential Information and Personal Health Information data from unauthorized use and disclosure.

T OHC should determine if there is a conflict of interest with all CMAS vendors.

AUDITEE'S RESPONSE



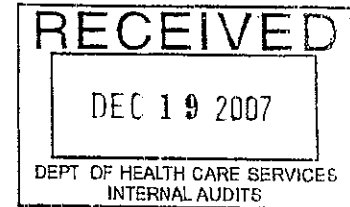
Department of Health Care Services
MEMORANDUM

DATE: December 19, 2007

TO: Thomas Rakela, CFE, Chief
Internal Audits
1500 Capitol Avenue, MS 2001

FROM: John Eastman, Deputy Director
Administration Division
1501 Capitol Avenue, Suite 6012, MS 2001

SUBJECT: Draft Report of the Department of Health Care Services' Review of
Administrative and Accounting Controls - SAM 20000 (07515)



This is in response to your December 3, 2007 memorandum relating to the Internal Audits review of the Administrative and Accounting Controls within the Department of Health Care Services (DHCS). Findings 1-9, 12 and 13 are related to the Administration Division

Finding 1: Lack of clearing Accounts Receivables

Response: We agree with the finding and the recommendations. We agree that the past procedures and collection of receivables was lacking consistent review and enforcement of collection. We also agree that back up documentation was not kept properly and was either sent to archives or was non-existent.

The lack of inconsistency and follow up of outstanding accounts receivables was largely due to the programmatic structure in which a multitude of staff with various supervisors performed a multitude of functions. Thereby leading to inconsistencies and inefficiencies in procedures and the improper maintenance of back up documentation.

With the reorganization to a functional structure the responsibility of the Accounts Receivable processing and oversight has been given to a few select staff, supervisor and manager. Their primary function will be to bill and collect. Review of the monthly Aged Accounts Receivables report will be the responsibility of the direct supervisor and manager. They will of course still rely on the communications and direction from program as to whom and how much to bill. It will still be necessary to follow up with program for collections but with a small staff directly responsible we can more easily communicate and follow up with program on a monthly basis.

Written procedures for Accounts Receivables were and have been in place on our shared drive; with the establishment of the new unit and new staff, review and training on the procedures will be necessary. We will

also train staff as to the proper maintenance and retention of back up documentation. Back up for open Accounts Receivable items will not be sent to Archives

We also agree with the recommendation that the establishment of Memorandums of Understanding should be set forth with program to establish responsibilities. Much relies on the program to notify us to bill and collect for A/R contracts; however we will aggressively contact program on a monthly basis to initiate billing and collection.

We will also consider using an outside collection agency to collect on outstanding Accounts Receivables if possible

Finding 2: General Ledger Fixed Assets are not supported by detailed inventory amounts as recorded in the Health Inventory System.

Finding 3: Fixed Assets cannot be located in all instances

Response: The Asset Management Unit (AMU) concurs with both findings. The Program Support Branch (PSB) AMU conducted an inventory in February 2007. With the pending split of the California Department of Health Services into the DHCS and the California Department of Public Health, the inventory was conducted to obtain information that accurately reflected the departments' equipment assets. Programs were asked to perform an inventory of their major equipment and report their findings to the PSB's AMU by March 23, 2007.

Your report indicated that as of this date, very few of the HIS responses were returned to AMU. AMU staff checked the receipt of HIS responses for DHCS programs only and determined that there were four areas or programs where HIS responses were not received. All other DHCS programs submitted HIS responses.

The PSB, AMU will plan and conduct a complete physical inventory and audit of all DHCS fixed assets by the end of the 2nd quarter of 2008. In coordination with Department of Public Health (CDPH), AMU staff will develop a plan to ensure a successful completion of the inventory. AMU will then coordinate the physical inventory, providing specific directions and timelines to program staff, and will work very closely with DHCS and CDPH program staff in the completion of the inventory.

The AMU will also explore the feasibility of procuring and using an automated Asset Tracking system that would integrate the procurement, transfers, accounting and disposal of DHCS assets.

It is expected that these activities will bring the department into compliance with SAM Sections 7977 and 8652

Finding 4: The Asset Management Unit has not created or maintained desk procedure manuals

Response: The AMU concurs with this finding. Staff will begin work on the preparation of a desk procedure manual for completion by May 2008

Finding 5: Outstanding travel and salary advances are not adequately monitored and recovered

Response: We agree with the finding and recommendation. Therefore, to better ensure the collection of outstanding travel and salary advances, we will implement improved review and oversight procedures for the monitoring of advances on the Calstars D02 Aged Revolving Fund Report. The D02 will be reviewed on a monthly basis by Accounting Managers and followed up by their staff. We will also review the Calstars Travel Advance report on a monthly basis to remind employees to submit the travel claims so advances can be cleared. Along with the monthly review of the aged reports, monthly notifications to employees with outstanding travel advances will be sent out every 30 days with payroll. This is a current and has been past practice.

We also agree with the recommendation that Human Resources should be notified on a monthly basis and we will work cooperatively to provide them the information, either by providing them a Calstars D02 report or an equivalent report. However it must be noted that Salary Advances for staff who are on NDI or IDL cannot be collected.

In addition, with the restructuring of the Accounting Office from a programmatic structure to a functional structure, it will allow us to more effectively manage, review and ensure that aged advances are addressed. Also, with this new structure the responsibility for maintaining, processing and collection of advances have been assigned to fewer and specific staff and supervisors. There by ensuring for better oversight, review and collection of advances.

This new structure will also accommodate the need for better record keeping. We realize that proper documentation must be maintained to ensure the collection and liquidation of advances. Staff will be trained as to the proper maintenance and retention of documentation. With the functional structure the responsibilities are more centralized and can be better managed for consistency, uniformity and enforcement.

Finding 6: Written procedures for the collection processes of outstanding Accounts Receivable are not being used or nonexistent

Response: We agree with the finding and recommendation, but would like to clarify that Accounts Receivable procedures do exist and are maintained on a shared drive for all staff. However, they do not specifically address the collection of Salary or Travel Advances. Therefore, we will write and include procedures to ensure the proper collection of aged advances. Also see responses under audit finding 5 on improvements on monitoring and recovery of accounts receivable.

Finding 7: The Attendance Summary form is not filled out by all Department personnel as required in the Attendance Coordinator (AC)

Response: The Administration Division agrees with the finding and will be implementing new procedures with both Payroll and Benefit Services Unit Staff and Attendance Coordinators in each program to reconcile 634 submissions. We are currently exploring whether HRIS has the capability of generating a listing in position number order that can be supplied to the Attendance Coordinator for reconciliation purposes. Attendance Coordinators will be required to return 634s to HRB in position number order (to assist payroll staff in the reconciliation process), noting receipt and return of each 634 that was originally sent to the program. Personnel Specialists will review and monitor the return of the 634s each month and will follow up with programs that fail to submit the 634 in a timely manner. As part of the implementation of this new process, Supervisors and above will also be provided with a written explanation/reminder of the critical nature of timely 634 submissions.

Finding 8: Accounting does not timely remove access to Calstars and Calaters upon termination or transfer of an employee

Response: We agree with the finding and recommendation. For the termination of Calstars access the current procedure is that the supervisors of any Accounting or Budget staff fill out the Calstars form to delete a user and submit it to the Calstars Security Officer in Accounting. It is then forwarded to Department of Finance for deletion off the active Calstars users list. This of course relies totally on the submission of this form. We therefore agree that another procedure be implemented to review the Active Calstars Users list which is distributed to us by the Department of Finance Calstars Unit and compare it against our current list of Accounting and Budget staff or the Department's employee roster. This would ensure that

the employees who have left the Department are properly deleted from Calstars.

In regards to Calaters termination, the current procedure is also that a Calaters form to delete an employee be submitted to Accounting by the departing employee's supervisor. However, the form may not always be submitted to us. We have a secondary procedure where Personnel submits to us an exit form and this form goes through a variety of desk, one of which is the Calaters liaison and it is deleted at this point. It is critical that we receive this form from Personnel so we agree that we will work cooperatively with them and reinforce the need to receive it.

Since there are thousands of Calaters users, we can only rely on the submission of these forms to delete them from the system. We therefore agree that procedures should be in place to re-emphasizing the need for the submission of these forms by the Department on a regular basis.

Finding 9: Lack of Controls over blank checks.

Response: We agree with the finding and recommendation. Procedures have been implemented that all blank checks are locked in a cabinet inside our check writer room which is also locked. Only authorized staff have access to the room and the locked cabinet, this provides twice the security to eliminate any unauthorized access to the blank check stock.

We also agree with the recommendation to perform regular and frequent physical inventory of blank checks. Accounting staff will continue to secure blank checks in a double locked security system. The check writer room will remain locked at all times, even when the staff person is processing checks and only authorized staff will have access to the keys to the cabinet and room.

Accounting supervisors and managers will perform regular reviews of those authorized to access the check writer room and will enforce security procedures. Supervisors will also remind check write staff that computers should be locked at all times when not in use.

Finding 11: Uncleared Collections are not being reviewed and cleared timely.

Response: We agree with the finding and recommendation. Due to the vacancies and the large volume of incoming cash receipts, Accounting's ability to identify uncleared items was severely impacted. A retired annuitant was hired and they did identify substantial uncleared items. However, they eventually left and new staff had to be trained.

Currently, the clearing of the Uncleared Collection items has been assigned to one staff and one of their primary responsibilities will be to clear aged items. They will have training as to properly following up and notifying a payer to identify cash receipts. They will also request assistance from program when necessary. The Supervisor will also review the monthly GL3730 report and initiate the necessary follow up on those items over 90 days old.

We agree that there must be consistent monitoring and review of Uncleared Collection on a monthly basis by Supervisors and Managers. Again due to the restructuring of the Accounting Office it more easily allows for us to do so.

Staff in turn will be trained as to the proper identification of cash receipts so as to avoid posting to Uncleared Collection if unnecessary. As mentioned, in the past, the sheer volume of receipts and the necessity to prepare a deposits daily, contributed to posting items in Uncleared Collections. However, we anticipate a decrease in the volume of checks due to the reorganization thereby making it more manageable.

Finding 12: The vast majority of 30 sampled contracts processed and approved were finalized after the start of the contract period. Some of the contracts did not contain an explanation for being late. Work was started prior to a contract approval.

Response: CMU concurs with the audit finding. This is a historical audit finding for DHCS programs. Although a number of efforts have been undertaken over the past couple of years, the timely processing of all contracts is a goal that has yet to be attained.

The Department of General Services (DGS) issued Administrative Order 06-05 on April 17, 2006 and Administrative Order 06-05 1 on June 20, 2006 announcing DGS' policy and requirements for approval/non-approval and acceptance requirements, and exceptions for submitting untimely contract documents to DGS for approval. CMU model instructions have historically required a late reason to be entered on the Agreement Summary if a finalized agreement arrives in CMU in less than 4 weeks prior to the contract start date and will reemphasize that requirement to program staff.

In response to Administrative Order (AO) 06-05 1 mandating that most contracts be submitted for DGS' review in a timely manner, DHCS programs have processed an increased number of contracts in a timely manner. CMU staff has also experienced a marked increase in the number of procurements that were initiated early in the calendar year with

the goal of executing timely contracts. For those agreement types that do not meet a timeliness exception identified by DGS in AO 06-05 1, Program staff will be required to either modify the contract start date or certify their rationale for untimely submittal through a certification approval process outlined in AO 06-05 1.

In an effort to stimulate timely contract initiation, CMU will continue to issue its annual bulletin reminding Programs to process their contracts in a timely manner and to discourage contractors from beginning work prior to receiving a copy of a fully approved and executed contract. CMU will also continue to maintain model letters and bid documents warning contractors not to begin work in advance of being notified that all contract approvals were obtained.

It should be noted that the physical separation and relocation of CMU's contract files and file room contents, which came about because of the departmental reorganization, will likely result in a many late contracts since many files were inaccessible and/or misplaced before and during our physical move and office re-establishment.

Finding 13: A contract for moving services did not contain a prevailing wage provision. Additionally, the contractor provided services prior to the contract being approved.

Response: This was a one-time only contract that required PSB to relocate three separate programs or organizations within the DHS within a limited period of time. PSB could not cancel or delay this relocation as it was important to remain on schedule for the opening of the DHS' Emergency Operations Center. The PSB is looking at implementing provisions or methods to ensure that this does not occur again.

The PSB agrees that the prevailing wage provision was not included in the contract. This was an oversight that the PSB will take steps to ensure that it will not occur again.

cc: See next page

Please call me with any questions you may have I can be reached at 440-7525

cc: Karen Johnson
Chief Deputy Director of Policy and Program Support
Department of Health Care Services
1501 Capitol Avenue, MS 0003

Stan Rosenstein
Chief Deputy Director of Health Care Programs
Department of Health Care Services
1501 Capitol Avenue, MS 0002

LaVonne Coen, Chief
Human Resources Branch
Department of Health Care Services
1501 Capitol Avenue, MS 1300

Lindy Harrington, Chief
Financial Management Branch
Department of Health Care Services
1501 Capitol Avenue, MS 1102

Bryan Hobson, Chief
Program Support Branch
Department of Health Care Services
1501 Capitol Avenue, MS 1400

Starla Hirst, Chief
Accounting Section
Department of Health Care Services
1501 Capitol Avenue, MS 1101



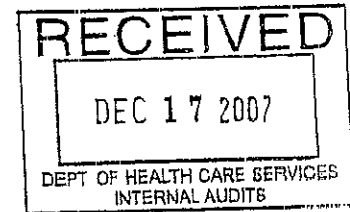
Department of Health Care Services
MEMORANDUM

DATE: December 17, 2007

TO: Thomas Rakela, Chief
Internal Audits
1500 Capitol Avenue, MS 2001

FROM: Jeff Blackmon, Chief *[Signature]*
Third Party Liability and Recovery Division
1500 Capitol Avenue, MS 4817
916-650-6545

SUBJECT: Finding 10, SAM 20000 Report



This memo is to confirm that Third Party Liability and Recovery Division (TPLRD) concurs with the subject finding and has taken steps to resolve the discrepancies. Specifically, language has been added to the invoice processing procedures which directs that:

1. Invoices from vendors who have qualified for and used a Prompt Payment Rubber Stamp will be processed and delivered to Accounting within five calendar days of receipt
2. All other invoices must be processed and delivered to Accounting within ten calendar days of receipt
3. The CORE report will be utilized to conduct an invoice reconciliation, which will confirm payment has been made

These additions to the invoice procedure should now ensure that TPLRD is in compliance with the Prompt Payment Act and the State Contracting Manual. We appreciate the assistance Internal Audits has provided in identifying this problem.

Processing Invoices

All invoices must be processed and delivered to Accounting within ten calendar days. Additionally, should a vendor qualify for and use a Prompt Payment Rubber Stamp, then those invoices must be processed within five calendar days.

The following is a list of vendors that we receive invoices from that we will process:

- Lewellan's (Chair repair and cubicle locks)
- Bode and Bode (Large and Small safes)
- Ray Morgan Company (Canon Digital Copiers)
- Sharp Electronics (Sharp Digital Copier) or
- Smile Business Products
- IKON (Ricoh Copiers)
- Peter's Shorthand
- Office Depot
- Capitol Enquiry
- Burkett's Office Supplies

The process for both Service Order and Purchase Order invoices is as follows:

1. Go into the "ACCTG" folder to the vendor's service order or purchase order tracking log (sample below) and record the relevant information for each invoice (Note: there is a separate log for each fiscal year and when equipment is involved there will be a corresponding subfolder for each piece of equipment)
2. Stamp the invoice with the CALSTAR coding box and enter the appropriate CALSTAR numbers (see below)
3. Obtain the authorizing signature for the CALSTARS coding box from the chief of ASU or their superior.
4. Prepare the transmittal packet which consists of:
 - a. the original plus a photocopy of the invoice
 - b. a copy of the vendor's service order
 - c. a transmittal coversheet. The coversheet include a portion of the vendor's service/purchase order log which has been pasted into the coversheet
5. Keep a record copy of all items, deliver the transmittal packet to Accounting and log in the date this occurred in the vendor's service/purchase order log
6. Conduct a verification that the invoice was paid the following week by conducting a search of the invoice on the CORE. Stamp the record copy of the invoice as paid and indicate the date. Print the CORE screen and add to the vendor's folder

The CALSTAR code to be used for all Service Orders is: 5245-21711-227.

The CALSTAR code to be used for all Purchase Orders is: 5245-21711-238

Sample of vendor's folder and accounting detail log:

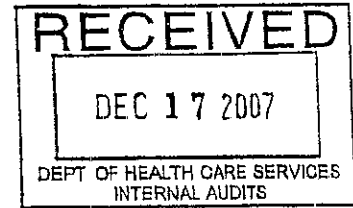
Invoice #	Inv. Rcvd	Inv. Date	Cost	Comments	To Acctg	Date Pd
95748165	11/10/07	10/31/07	\$ 108.46	Maint Agreement 9/07	12/04/07	12/15/07
95803665	12/12/07	11/29/07	\$ 135.58	Maint Agreement 10/07	12/13/07	pending




Department of Health Care Services
MEMORANDUM

DATE: December 14, 2007

TO: Thomas Rakela, CFE, Chief
DHCS Internal Audits
1500 Capitol Avenue
Sacramento, CA 95818
MS 2001



FROM: Robert J. O'Neill, Division Chief
Office of HIPAA Compliance 
1501 Capitol Avenue
Sacramento, CA 95818
MS 4721
552-9444

SUBJECT: Response to Finding 14 of the DHCS Review of Administrative and Accounting Controls as of December 2007

The Office of HIPAA Compliance (OHC) has reviewed Finding 14 of the Draft Report of the Department of Health Care Services' Review of Administrative and Accounting Controls – SAM 20000 (07515).

Finding 14 stated:

"The Office of HIPAA Compliance did not provide requirements for HIPAA Compliance to CMAS vendors and did not determine if there was a conflict of interest as required in the CMAS contract standard language."

The report included two recommendations for this finding

FIRST RECOMENDATION

"Develop procedures to systematically notify all active service CMAS contractors and other service contractors in writing of the State's requirement to protect Personal

Confidential Information and Personal Health Information data from unauthorized use and disclosure.”

RESPONSE: The audited contracts were from the 2006/2007 fiscal year. During that time period OHC was using a HIPAA Business Agreement with most, but not all, of its service contracts. This agreement clearly states the requirements regarding Protected Health Information and the responsibility of the contractor. However, all active consultants attended the appropriate live Privacy Training provided by the department and took the intranet Privacy training provided by the department.

OHC put in place procedures at the beginning of fiscal year 2007/2008 to ensure that all Requests for Offer for CMAS contracts for services include language regarding the protection of Personal Confidential Information and Protected Health Information data and contain a HIPAA Business Agreement. In addition, all consultants are required to complete training on Privacy and Security within thirty days of the start of the contract.

SECOND RECOMMENDATION

“OHC should determine if there is a conflict of interest with all CMAS vendors.”

RESPONSE: A questionnaire is under development to be given to each consultant before award to determine that there is no conflict of interest as defined in the CMAS services guide provided by the Department of General Services. All current contractors will be required to respond to this questionnaire as well.

These actions should adequately address Finding 14 of the audit. If any further action is required, please contact Adrienne Snyder, OHC Administrative Operations Unit Chief, at (916) 552-9066.